



## **Reporting on Corporate Social Responsibility by Banks, Financial Institutions and Listed Companies in Poland**



**Gdansk, December 2003**

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<b>1.1. Corporate Social Responsibility in the national sector of listed companies (<i>Marta Penczar</i>) .....</b>	<b>3</b>
<b>1.2. Corporate Social Responsibility (CSR) in the Polish banking sector (<i>Blazej Lepczynski</i>).....</b>	<b>13</b>
<b>1.3. Corporate Social Responsibility (CSR) in the Polish sector of investment and pension funds (<i>Dr. Piotr Pisarewicz</i>).....</b>	<b>22</b>

## 1.1. Corporate Social Responsibility in the national sector of listed companies (*Marta Penczar*)

The concept of sustainable development becomes more and more important in the Polish economy. Sustainable development is development satisfying needs of the present generation not depriving future generations of possibilities to satisfy their needs<sup>1</sup>.

Thus, companies have to implement the idea of the Corporate Social Responsibility, which is an equivalent of the sustainable development at the microeconomic level.

The basic principle of the sustainable development and Corporate Social Responsibility is the combination of needs important both from the point of view of an institution, as well as a group of entities operating in its environment (employees, shareholders, stakeholders, borrowers, local society) within its business policy. Thus, **the goal of a contemporary organisation should be to maximise its shareholders' value satisfying, at the same time, expectations of other stakeholders (stakeholders' value) by integrating economic, social and environmental operations.**

There are many factors that make us interested in Corporate Social Responsibility<sup>2</sup>:

- New problems and expectations of citizens, customers, public authorities and investors in the context of globalisation and significant industrial changes;
- Social criteria have bigger and bigger influence on investment decisions made by units and institutions playing both the role of consumers as well as investors;
- Bigger and bigger care for damages caused to natural environment by business activities;
- Transparency of business activities supported by media and IT technologies.

The research carried out by Ashbridge Business School<sup>3</sup> shows that companies that have taken up actions to implement Corporate Social Responsibility may expect that:

1. Their image and reputation will improve,
2. Their market management quality will improve

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<sup>1</sup> See: „Report of the Brundtland Commission”.

<sup>2</sup> Promoting a European framework for Corporate Social Responsibility, Green Paper, COM(2001) 366 final, Brussels, 18.07.2001

<sup>3</sup> Corporate Social Responsibility & Socially Responsible Investing, A European Framework, Chaired by Sir Brian Inwin, Federal Trust for Education and Research, London, 2002

- environmental and social risk management quality may influence the profitability of a company and determine its existence,
  - risks connected with Corporate Social Responsibility are a special challenge for the management since, to manage them, they have to establish a wide dialog with external parties: consumers, suppliers, and at the same time these risks are difficult to measure and quantify (risk of reputation loss, consumers' loyalty);
3. Their relations with employees will improve;
  4. Their relations with other stakeholders will improve;
  5. Their relations with local society will improve;
  6. Their financial results (as a consequence of all the above factors) will improve.

**Table 1.1.1**

**Examples of co-operation of particular groups of stakeholders with a socially responsible company**

Group of stakeholders	Scope of co-operation with a socially responsible company
1) Shareholders and owners	<ul style="list-style-type: none"> <li>• Definition of a mission that includes non-financial objectives</li> <li>• Reporting of socially responsible business practices to shareholders</li> </ul>
2) Employees	<ul style="list-style-type: none"> <li>• Engagement in the empowerment of employees</li> <li>• Employees are guaranteed safe working conditions</li> <li>• Improvement in communication between employees and management</li> <li>• Employees are helped to combine their work, family life and own intellectual development</li> </ul>
3) Customers, consumers	<ul style="list-style-type: none"> <li>• Monitoring the quality, security and environmental aspects of products and services produced by the company</li> <li>• Promote response to customer complaints</li> </ul>
4) Natural environment	<ul style="list-style-type: none"> <li>• Agreement to minimise negative environmental impact of the company</li> <li>• Analysis of the whole product life cycle</li> </ul>
5) Local community	<ul style="list-style-type: none"> <li>• Charity actions and getting acquainted with needs of the community</li> <li>• Partnerships with social organisations supporting economic success of the company</li> <li>• Sensitivity to local habits and culture</li> </ul>
6) Suppliers	<ul style="list-style-type: none"> <li>• Establishing no co-operation with companies using illegal practices (like work of children)</li> <li>• Verifying social responsibility practices in the whole supply chain</li> <li>• Immediate response to suppliers' comments and suggestions</li> </ul>

*Source: Own analysis based on the Observatory of European SMEs 2002/No 4, European SMEs and social environmental responsibility, European Commission, p.14 and Cana Business for Social Responsibility*

Given the fact that Poland is to join the European Union in May 2004, Polish listed companies should expect that they will be carefully observed by various Union environments, analysing the standing of our domestic companies, including, but not limited to, their declarations to adopt



Corporate Social Responsibility principles, as well as the quality of information in their web sites and annual reports, the main sources of knowledge about the company for potential investors, counterparties and local communities.

In the near future, we should also expect that as a result of the globalisation of financial markets, Polish listed companies will meet investors that are more aware of Corporate Social Responsibility and consumers that invest and co-operate better with companies supporting environmental and social development.

The analysis of awareness rates and progress in implementing the concept of Corporate Social Responsibility in the sector of Polish companies covered **all joint stock companies listed in the Warsaw Stock Exchange**<sup>4</sup>, excluding listed banks (covered in the analysis of the banking sector) and national investment funds. **Results of the study are based on information disclosed and presented in web sites and annual reports** of the analysed companies and they refer to the following aspects:

- reporting on Corporate Governance principles adopted by the company, including audit rules;
- reporting on the company's environmental policy,
- reporting on the company's social policy.

The study covered **possibilities of an access for investors, local communities, potential business partners to the information about the company's financial standing, and strategies in progress.**

The principles for reporting on Corporate Governance were stipulated in the resolution of the Stock Exchange Council of October 16, 2002 (58/952/2002) on best practice in public companies in 2002. Pursuant to this document, companies were obliged to publish and deliver, by July 1, 2003, their first statement confirming their will to observe the newly introduced rules.

The study carried out by the Institute shows that **over 90 percent of companies** publish their reports on **incorporating (adopting) principles of Corporate Governance in their business strategies.**

However, we have to point out that **the quality and availability of the information presented in web sites and in annual reports of companies for potential investors and society is relatively low.**

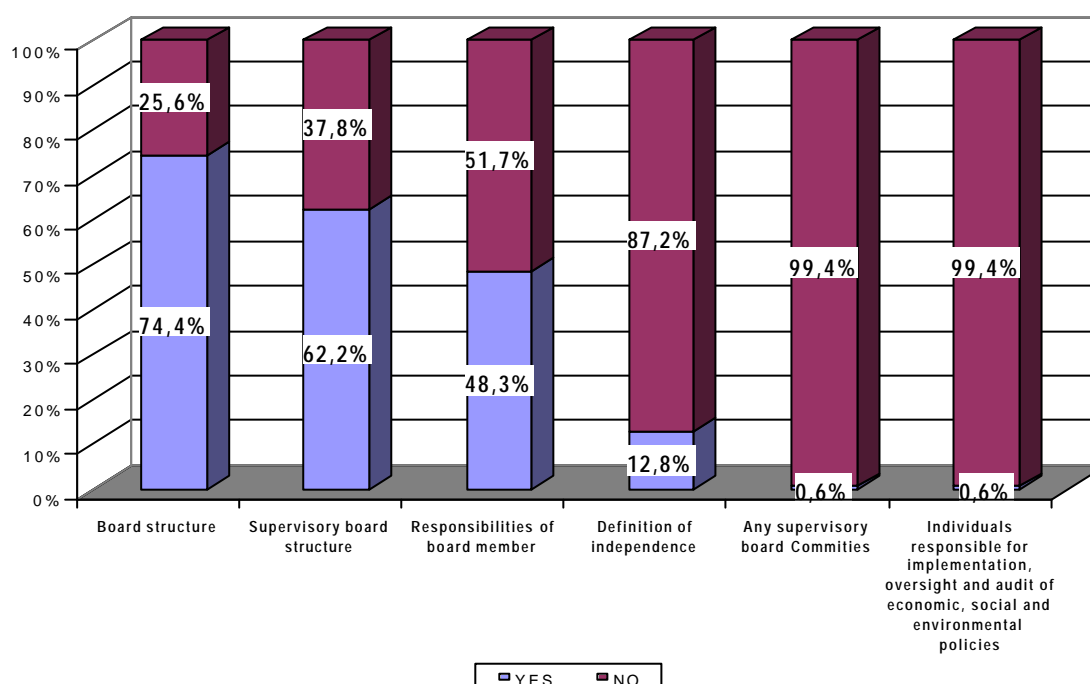
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<sup>4</sup> The analysis was carried out from August – October 2003.

Among the listed companies under the study, only 40 percent disclose and publish detailed information about the structure of their Corporate Governance, and mostly in web sites, where companies present the information about the composition and structure of their management board (74.4 %) and the composition and structure of their supervisory board (62.2 %).

Chart 1.1.1

**Do domestic companies publish detailed information about the structure of their supervisory bodies?**



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

The Institute's studies on the companies' informing about the structure and responsibilities of their main bodies in charge of Corporate Governance also show that:

- **domestic listed companies have not appointed persons in charge of implementing and supervising their policy related to Corporate Social Responsibility, yet (only 0.6%),**
- companies usually do not disclose the information about the existing committees at their supervisory boards.

Potential investors and business partners willing to establish co-operation with a given entrepreneur want to know external auditors analysing the company's financial statements and know whether they are reliable.

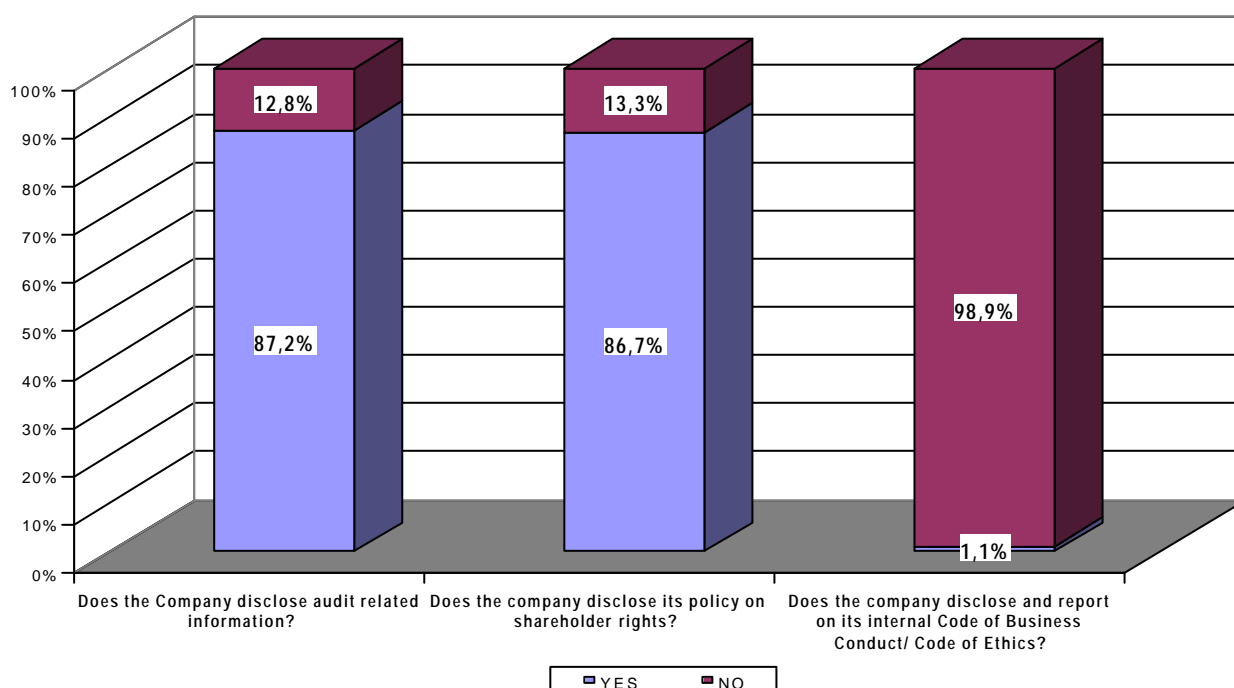
The Institute's study shows that **88 percent of domestic public companies presents information related to their audit policy in their web sites**. The companies usually give procedures for selecting external auditors, principles for rotation (changes) of external auditors and point out that external auditors are independent of the company. Nevertheless, **in Poland, companies still do not present statements on audit costs and costs of other services performed by auditors**.

The Institute's analysis also shows that most listed companies under the study (86.7%) have undertaken to respect such shareholders' rights specified in the Best Practice like:

- right to express their opinion and make motions to the company's management board;
- right to see minutes and reports from previous meetings (usually available to the shareholders at the company's office);
- publishing information on future General Shareholders Meetings and their agenda.

**Chart 1.1.2**

**Do domestic companies publish information about audit, shareholders' rights, implemented principles of their Code of Business Conduct / Code of Ethics?**



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

Assessing the awareness and progress in implementing the concept of Corporate Social Responsibility by Polish listed companies, it is worth underlining that **still a small percentage of companies has developed and adopted** the Code of Ethics and the Code of Business Conduct,

where the companies define, for example, principles for social, environmental policy, issues related to the protection of human rights, employment policy. The managements have to guarantee that the Code of Business Conduct is effectively implemented, monitored and improved. Therefore, the European Commission promotes companies which adopt and implement the Codes of Business Conduct prepared by international corporations. In the opinion of the European Commission, the Code of Business Conduct should<sup>5</sup>:

- Be based on guidelines of the Convention of the International Labour Organisation, defined in the Declaration on Fundamental Principles and Rights at Work from 1998 and OECD's guidelines for international companies related to social partners and their stakeholders;
- Incorporate mechanisms required to assess and verify the Code implemented;
- Involve social partners and other groups of stakeholders influencing the company's operations in the dialog about the shape of the Code;
- Expand the experience related to best practice in European companies.

The concept of Corporate Social Responsibility also assumes that **the company should purposefully get involved in environmental protection.**

The study shows that **domestic listed companies do not find it purposeful to present information about actions taken to protect the natural environment.** On the one hand, it results from the fact **that the companies are not aware of potential benefits** they could obtain, according to the assumptions of Corporate Social Responsibility, for example if their environmental actions are positively perceived by their stakeholders. The research carried out by the Market and Opinion Research International (MORI) under the CSR Europe campaign on the sample of 12 thousand citizens representing 12 countries shows that around 70 percent of consumers buying a product or a service take into account the level which a given producer is involved in social and environmental activity to. At the same time, every fifth consumer is ready to pay more for goods produced by a socially responsible company.

On the other hand, the lack of information about environmental actions taken by the companies results from relatively low financial expenses borne by these companies for environmental purposes.

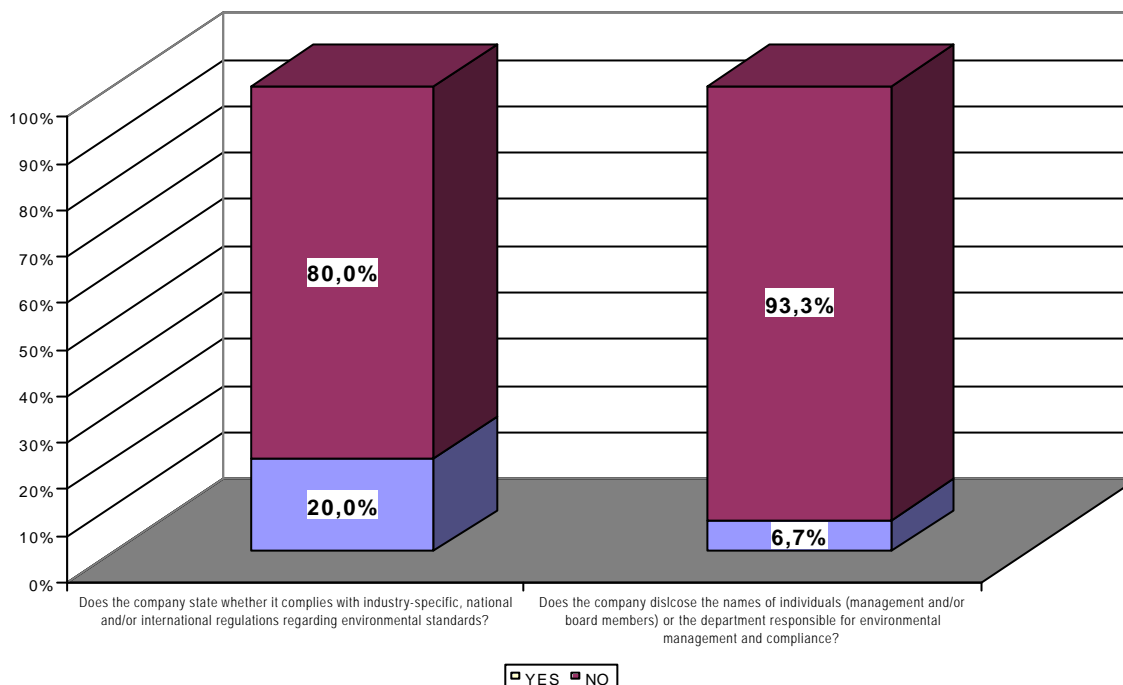
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<sup>5</sup> Corporate Social Responsibility: A business contribution to Sustainable Development, Communication from the Commission, COM(2002) 347 final, Brussels, 2th July 2002



Chart 1.1.3

Do domestic companies publish or observe industrial/national/international regulations on environmental standards or publish names of persons or departments in charge of environmental management?



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

The environmental activity of domestic listed companies is poorly developed and **only 6.7 percent of companies want to establish departments in charge of environmental management or appoint persons responsible for environmental actions.**

At the same time, these companies are not interested in incorporating environmental aspects in their supply chain management policy. We have to point out that thanks to their strict co-operation with commercial partners, companies may eliminate problems, reduce costs and improve their quality. In a long run, as a result of building adequate relations with their partners, companies may offer competitive prices, relevant quality and timely supplies. Under Corporate Social Responsibility, the companies should provide products and services needed and expected by consumers in an efficient, ethically and environmentally responsible way<sup>6</sup>.

Our Polish companies are not interested in environmental policy and management. They still **do not pay attention to reporting on the consumption of power and water and use of wastes**

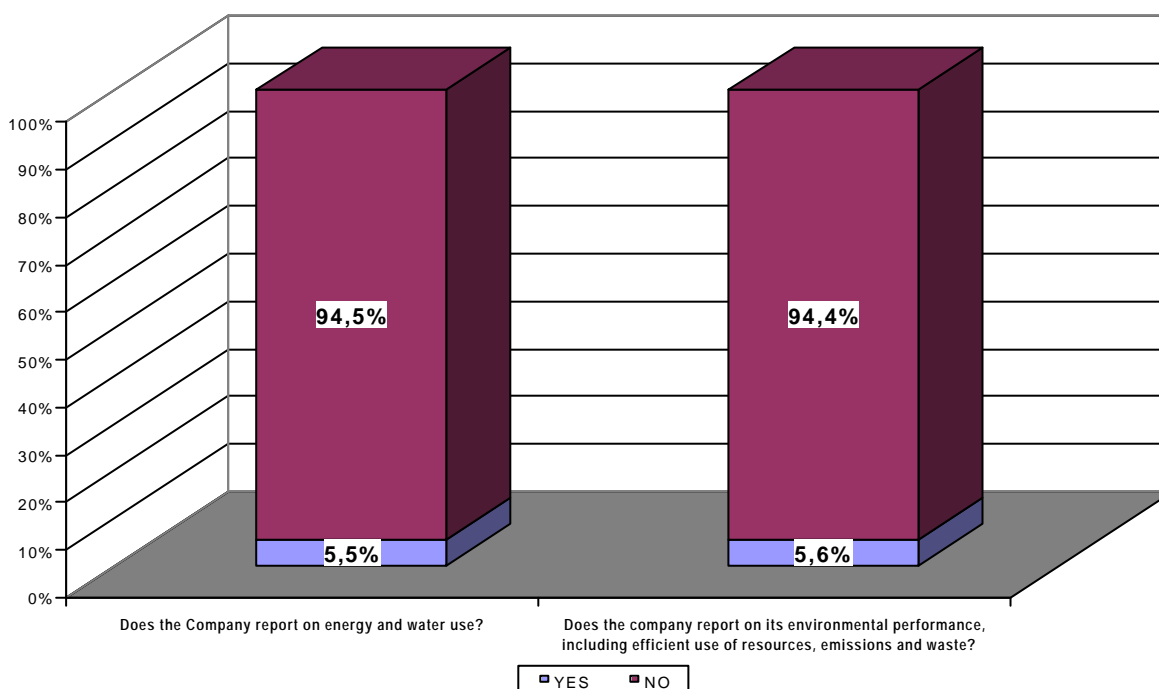
<sup>6</sup> Promoting a European framework for Corporate Social Responsibility, Green Paper, COM(2001) 366 final, Brussels, 18.07.2001

**and recoverable source.** Unfortunately, you will not find the information about the sources of power used, initiatives taken to use recoverable sources of energy or total emission of gases in web sites or annual reports of our domestic listed companies.

The development of social and environmental reports is more and more often supported by social and government initiatives. We may expect that the recommendations of the Commission approved on May 30, 2001 on identifying, evaluating and disclosing information about environmental issues in annual reports will make companies publish important and comparable information related to environmental issues in the EU<sup>7</sup>.

**Chart 1.1.4**

**Do domestic companies publish reports on their consumption of power and water and reports on the use of wastes and recoverable sources?**



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

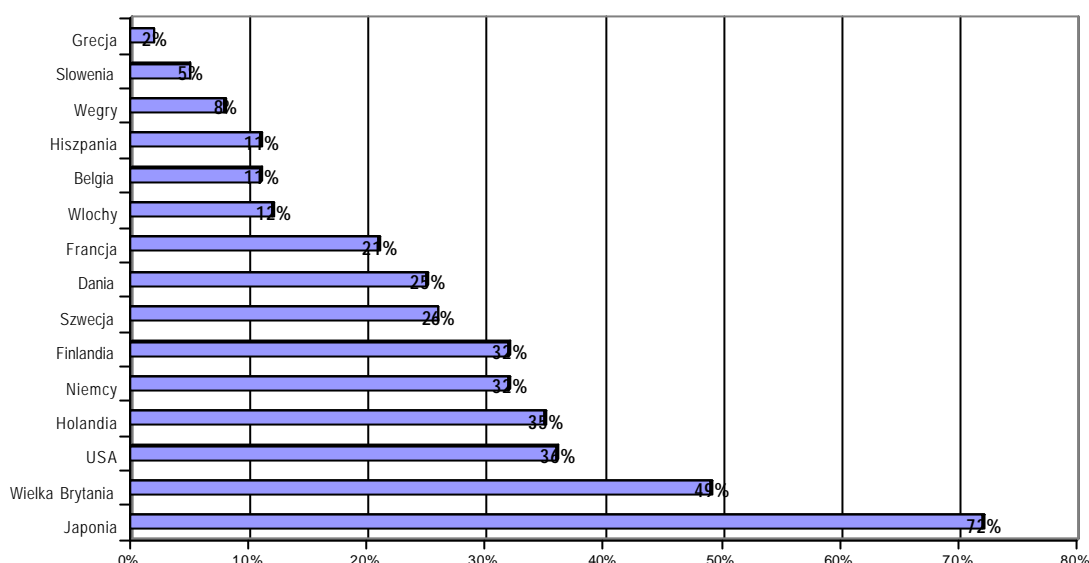
The survey carried out by KPMG<sup>8</sup> in 19 countries of the world shows that these are the citizens of Japan and UK that pay the biggest attention to publishing reports connected with Corporate Social Responsibility (like health, safety and environmental report; social or sustainability report).

<sup>7</sup> Promoting a European framework for Corporate Social Responsibility, Green Paper, COM(2001) 366 final, Brussels, 18.07.2001

<sup>8</sup> The KPMG International Survey of Corporate Sustainability Reporting 2002

Chart 1.1.5

Corporate reporting by countries, Top 100 in 19 countries (2002)

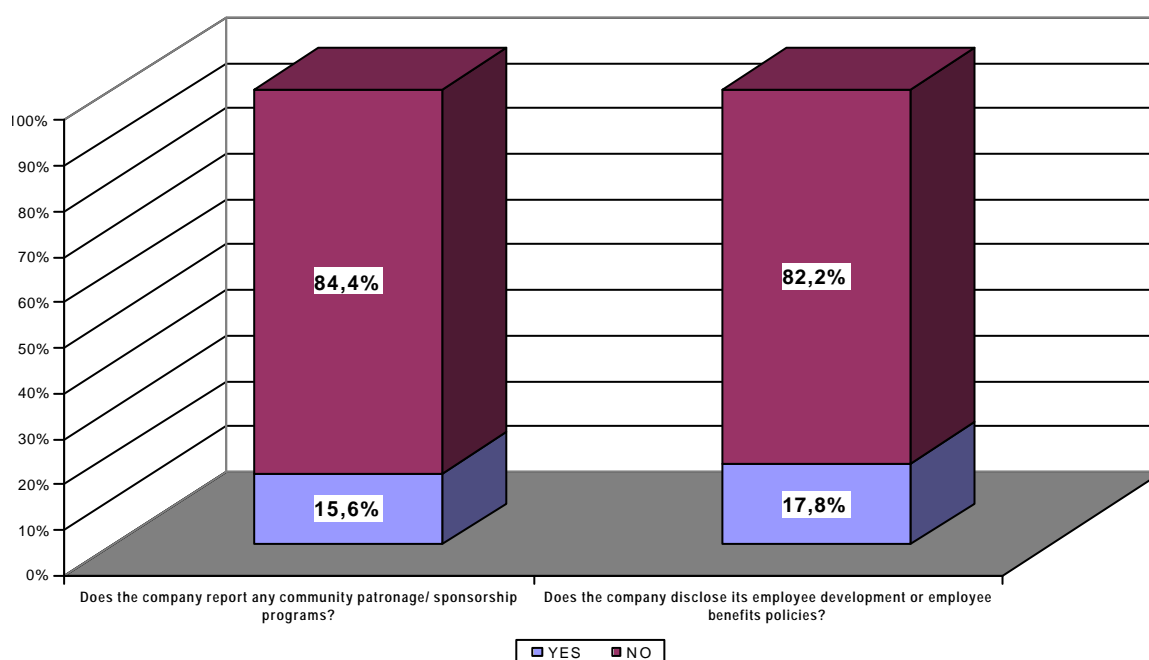


Source: KPMG International Survey of Corporate Sustainability Reporting 2002, June 2002,

Corporate Social Responsibility of the Polish listed companies is also analysed in terms of their **activity to the benefit of local community and employees**. The Institute's study shows that the information related to social patronage or sponsoring is published by around 15 percent of listed companies in Poland.

Chart 1.1.6

Do domestic companies publish reports on social patronage / sponsoring and principles of their policy for employee benefits and professional improvement?



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

Only a slightly higher percentage of companies (17.8%) publishes the information about actions taken in relation to their employees. Companies usually inform about actions taken in relation to internal development programmes for employees (12%), continuation of training, whereas only 6% of companies discuss the organisation of sponsored programmes for employees (sports club, internal paper).

Since Corporate Social Responsibility comprises many issues and practically has got an impact on all operations, companies should consult issues related to their policy, plans and finance with representatives of their employees according to the initial version of the Directive of the Commission defining general methods for informing and consulting employees in the European Community (COM(98)612)<sup>9</sup>.

**Domestic listed companies are not used to publish any information about their employment policy.** The research shows that only 4 percent of entities present principles of their union policy, employee rights and working standards in their web sites.

Summing up, **the level of reporting related to the implementation of the Corporate Social Responsibility at domestic listed companies is relatively low.** Whereas, given the results of the studies, we may confirm that Polish companies more often start incorporating some elements of the social responsibility in their business strategies than implementing the concept as a whole.

We have to point out that our future membership in the European Union may greatly accelerate the process of incorporating the social responsibility in principles of operation of domestic listed companies due to the growth of competition and pressure from European companies, as well as the growth of awareness and sensitivity of consumers and local communities to social and environmental aspects.

**Domestic listed companies are likely to be more involved in the process of adopting the concept of Corporate Social Responsibility, but they do not inform the public about it.** We have to remember that potential investors and consumers make decisions to buy goods or products, first of all, based on generally available information about the company and its standing. Therefore, we may say that the information policy of listed companies is one of key elements of their assessment and it has an indirect impact on its valuation in the stock exchange market.

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<sup>9</sup> Promoting a European framework for Corporate Social Responsibility, Green Paper, COM(2001) 366 final, Brussels, 18.07.2001

## **1.2. Corporate Social Responsibility (CSR) in the Polish banking sector** *(Blazej Lepczynski)*

### **1.2.1 Awareness of Corporate Social Responsibility in the Polish banking sector**

We will not be able to realise the concept of sustainable development without a stable banking system. Since banks perform at least several socially responsible tasks connected with effective capital allocation and accumulation of savings in the economy.

Given the globalisation and liberalisation of capital flows, the competition in the capital acquisition market grows. The competition evolves more and more in the direction of a perfect competition model.

Capital migrates from areas, countries, industries and companies of a lower return rate to areas, countries, industries and companies of relatively higher rates. The freedom of capital migration is limited mainly by the reputation and liquidity of markets and institutions. Evaluating the reputation of markets and institutions, investors take into account social, ethical and environmental criteria more and more often.

To identify the awareness of the Corporate Social Responsibility in the Polish banking sector, we carried out the survey (from September to October 2003), which covered 31 of 56 commercial banks running operations as at June 2003. Assets of the banks under the analysis constitute over 90% of all assets of the banking sector.

Banks selected for the survey are mostly large privatised domestic banks with the foreign majority. The group also included many banks with 100% foreign share and the advantage of the Polish capital, as well as banks controlled indirectly by the State Treasury.

We analysed domestic banks disclosing information about:

1. Principles of Corporate Governance and accounting standards,
2. Environmental policy,
3. Social policy.

Results are based on information available in web sites of banks and their annual reports presented in the Internet. It is worth pointing out that 38.5% of banks do not publish their annual reports in their web sites at all.

Item 1.

Given the results of the survey, we have observed that:

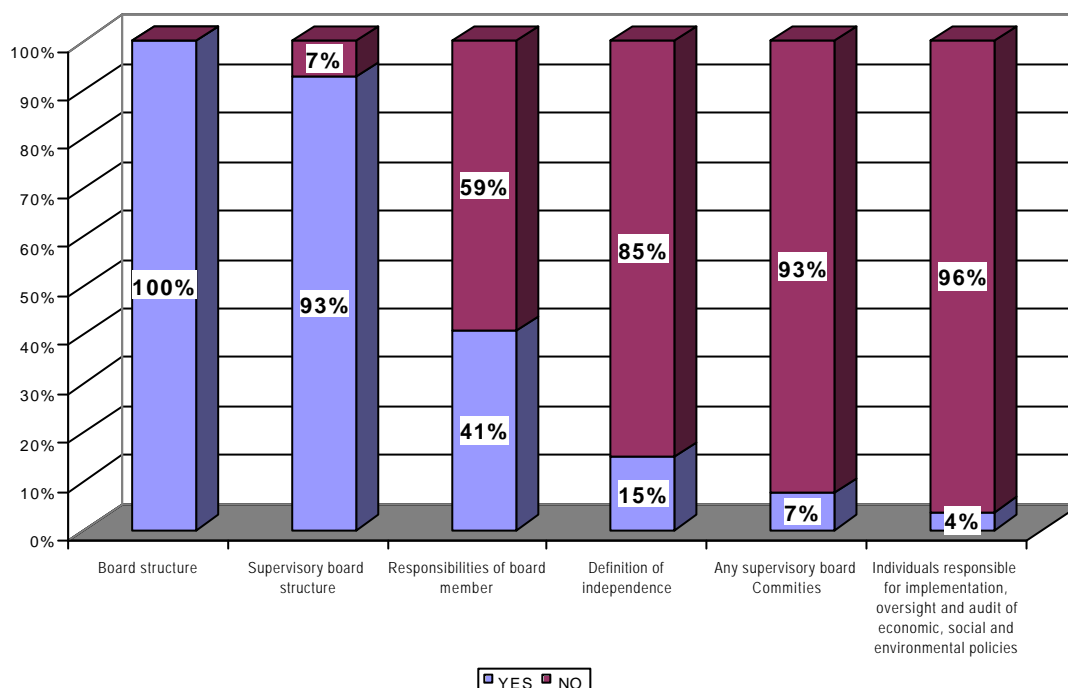
- reports on the compliance with the Corporate Governance Code binding in Poland are presented only by listed banks obliged to do that by law,
- around 80% of banks disclose details related to their Corporate Governance structure in their web sites,
- only 40% of banks publish information related to their shareholders' rights,
- banks operating in Poland usually do not inform the public about their principles of the Code of Business Conduct / Code of Ethics.

Analysing available information concerning the implemented structure of Corporate Governance, we have, first of all, noticed that: (see Chart 1.2.1):

- relatively often, banks present detailed information about the composition and structure of their management and supervisory boards in the web sites,
- very rarely, banks give information about the status of independence of their supervisory board members and the existing supervisory board committees,
- none of the banks in Poland presents data about persons in charge of implementing and supervising the CSR policy.

Chart 1.2.1

Do domestic banks publish detailed information about the structure of their supervisory bodies?



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

Practically all of the banks that publish information about their shareholders' rights disclose data related to rights of their minority shareholders to express opinions and submit motions to the management board, shareholders' rights to review protocols and reports from previous meetings, and they inform their shareholders about future General Shareholders Meetings and agendas.

The analysis shows that no bank operating in Poland publishes information about principles of its Code of Business Conduct / Code of Ethics. Based on information in the web sites of the banks, we may conclude that the banks have not developed principles for ethical and social activity related to environmental protection. In their annual reports presented to stakeholders in web sites, the banks often present less information concerning Corporate Governance than in their web sites.

In the annual reports of the banks, we will have problems to find any information about:

- the liability and competence of management board members,
- the status of independence of supervisory board members,
- the existing committees at the supervisory board.

Information concerning Corporate Governance available in the annual reports present only the composition and structure of the management and supervisory boards.

Web sites and on-line annual reports of large domestic banks controlled by foreign capital present much more information regarding Corporate Governance than other groups of banks. Web sites of banks owned in 100% by foreign institutions, where you will have problems to find even annual reports, rise many reservations as regards the communication of Corporate Governance.

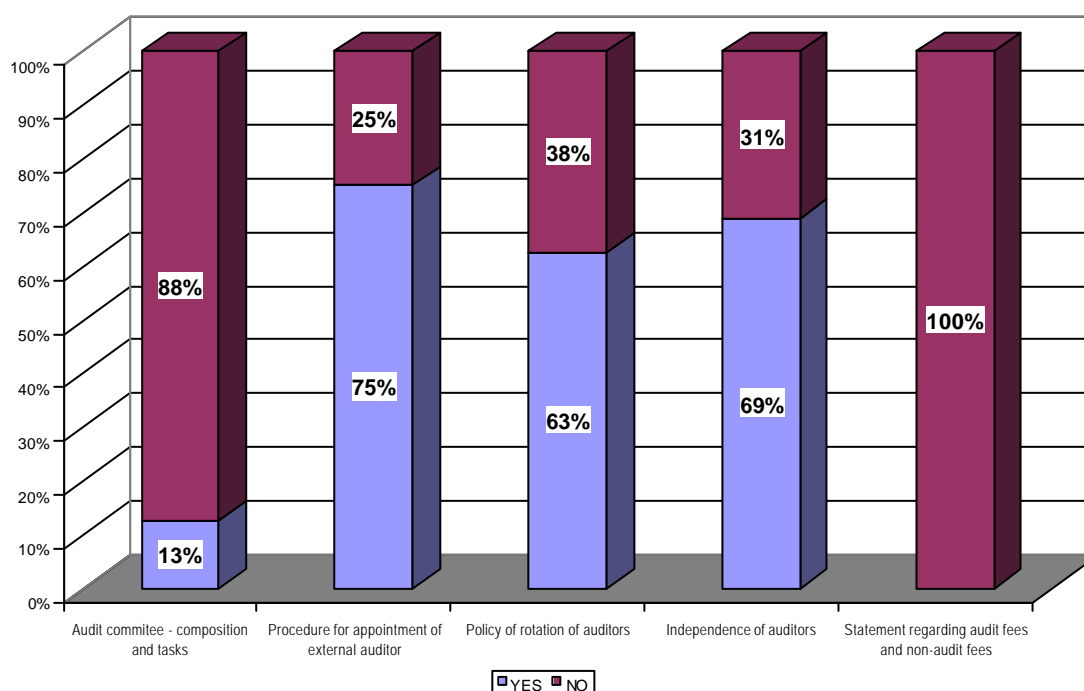
A half of the banks operating in Poland publishes additional and detailed information about their audits.

Relatively the biggest number of banks that publish additional and detailed information about audits (see chart 1.2.2) also informs about procedures for appointing and independence of external auditors.

In web sites of banks operating in Poland there is practically no information about audit costs and costs of other services provided by auditors.

**Chart 1.2.2**

**Do domestic banks publish additional and detailed information about their audits?**



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.





Domestic banks do not present any statements on their audit costs and costs of other services provided by auditors, which is a matter of special concern.

Item 2.

In the web sites and annual reports of the banks operating in Poland, you will have trouble to find any information about environmental policy run by these banks.

Such a low awareness rate of the banks as regards environmental policy may result from the fact that activities of financial institutions (including banks) have only a slight impact on natural environment. However, bigger and bigger sensitivity of our society to environmental problems makes world banks implement environmental management systems. Such management systems should contribute to improving the banks' cost/income ratios. The banks should implement, among others, programmes to consume power effectively, recycle materials, minimise the unreasonable use of, for example, paper, and educate their employees, suppliers and customers on environmental risks.

The banks may have a significant impact on environmental protection by:

- disciplining other business entities (especially industrial ones),
- developing finance instruments for environmental projects,
- developing passive financial services supporting environmental protection.

Disciplining other business entities in terms of environmental protection should consist in applying environmental criteria in the credit policy.

In Poland, only one bank has got some achievements in environmental protection: Bank Ochrony Środowiska SA. It publishes the Environmental Report of BOS SA, where it presents its activity aiming at environmental protection and its instruments offered to customers<sup>10</sup>. It reflects the commitments of the signatory of the UN Declaration „Banking and Environment” to inform the public about actions taken and their effects<sup>11</sup>.

Item 3.

Based on the survey, we may observe that:

- none of the banks publishes information related to its compliance with industrial, domestic and international principles concerning the protection of human rights and working standards,
- 65% of banks under the survey publish reports under social patronage/sponsoring,

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<sup>10</sup> Environmental Report, Bank Ochrony Środowiska SA, Warsaw 2002, p. 1.

<sup>11</sup> See above, p. 1.

- 23% of bank institutions inform the public about their principles of social benefit policy and actions taken to improve professional qualifications of their staff,
- 13% of banks disclose rules of their industrial safety policy (internal guidelines for industrial safety, damages and accidents at work),
- none of the banks presents principles for its employment policy in its web sites (principles for equal treatment of women and men, union trade policy, policy related to employee rights and working standards).

The analysis of the awareness rate concerning Corporate Social Responsibility at domestic banks lets us observe that:

- the banks publish, first of all, the information about their Corporate Governance principles, which mainly results from a duty imposed by the Warsaw Stock Exchange on banks being public companies,
- there is very few information about environmental and social policy.

### 1.2.2 Impact of the CSR concept on credit decisions – potential consequences for the banks

Credit risk of the banks plays an important role since it refers to the situation where a borrower would not want or would not be able to meet his commitment to pay interest and repay principal instalments<sup>12</sup>.

Excessive credit risk and wrong credit portfolio management are the most frequent reasons for the banks' bankruptcy. The history of bank crisis and individual cases of banks bankruptcy confirm that.

Due to the credit risk and a risk of bad loans, the banks bear triple cost consequences:

- costs connected with unrepaid part of the loan,
- costs of specific provisions,
- tax consequences if specific provisions are not recognised as deductibles<sup>13</sup>.

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<sup>12</sup> See: D. R. Fraser, L. M. Lyn, Ocena wyników działalności banku komercyjnego (*Evaluation of results of a commercial bank*), Association of Polish Banks, Warsaw 1996, p. 30.

<sup>13</sup> L. Pawłowicz, Restrukturyzacja przedsiębiorstwa w sytuacji kryzysowej (*Restructuring a company under crisis*), in: collective work edited by R. Wierzbą, Studium bankowości (*Banking Studies*), volume II, Gdansk Academy of Banking, p. 127.



As a result, the excessive risk may contribute to lowering the quality of the credit portfolio, worsening financial results and profitability of the bank, and finally to the drop in the bank's shareholders value.

Since the importance of Corporate Social Responsibility is growing, the banks should pay more and more attention to social, ethical and especially environmental criteria in their credit risk management in the following years.

Environmental credit risk means the situation where a borrower would not be able to repay his principal and interest instalments due to some environmental problems.

Factors generating the environmental credit risk may be divided into two basic groups:

- external (independent of the bank, connected with the change of the borrower's standing),
- internal (depending on the quality of bank's decisions).

The first group of factors generating the environmental credit risk includes:

- more restrictive laws on environmental protection and their observation,
- growth of costs related to wastes utilisation and storing,
- growth of fees for emission of impurities to air, water and soil,
- consumers resigning from products perceived as threatening the natural environment,
- internal environmental catastrophes.

The internal factors are connected with a potential risk of bad rating of the environmental credit risk, which may be connected with poor quality of decisions made at the bank.

Negative consequences of the environmental credit risk for the banks may be connected with worsening quality of their:

- credit portfolio,
- collaterals.

The banks should especially avoid the environmental risk. It would consist mostly in avoiding sectors, industries and customers of excessive environmental credit risk<sup>14</sup>. For that purpose, the

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<sup>14</sup> G. Borys, *Ryzyko ekologiczne w działalności banku (Environmental risk in the banking activity)*, Biblioteka Menedżera i Bankowca, Warsaw 2000, p. 67.



banks should develop their internal prudent environmental standards and credit procedures taking account of:

- environmental aspects regarding the analysis of the creditworthiness of potential borrowers,
- environmental aspects of credit collaterals,
- exchange of information about environmental issues with customers,
- borrowers' environmental risk monitoring.

The analysis of the awareness rate and progress in implementing CSR lets us conclude that ethical, social and especially environmental criteria still do not play a bigger role in bank and credit risk management at banks operating in Poland.

Thus, in the Polish banking sector, the bank credit policy should pay more attention to social and environmental issues.

### **1.3. Corporate Social Responsibility (CSR) in the Polish sector of investment and pension funds (*Dr. Piotr Pisarewicz*)**

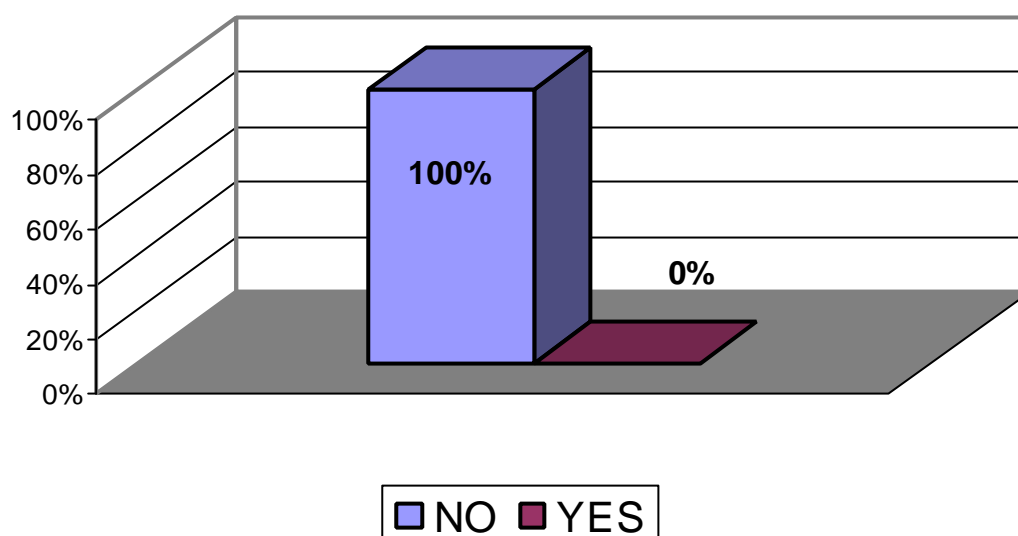
The survey was carried out from August to October, 2003 on the grounds of the sample of Investment Fund Companies (TFI) (16) and Common Pension Companies (PTE) (16) operating in Poland. The analysis based on information presented in web sites of companies managing investment and pension funds (hereinafter referred to as the funds) confirms that they differ not only in terms of graphics, transparency and legibility, but also their content. The survey also covered „annual reports” of the entities under analysis published in their web sites.

At the beginning, we have to point out that in Poland legal standards providing for management companies (PTE, TFI) and funds managed by them are very rigorous (Investment Fund Act of August 28, 1997, Pension Fund Organisation and Operation Act of August 28, 1997). Both the legal acts comprise many provisions or references to executive acts stressing the quality and content of information to be presented both by managing companies, as well as the very funds. Thus, in Poland, the sector of pension and investment funds is relatively well-regulated, therefore it is very secure. In this context, we have to have a look at this analysis focusing on ‘non-obligatory’ reports of PTE and TFI on Corporate Social Responsibility and Corporate Governance.

Both these types of entities practically do not publish any reports on their compliance with the standards of the Corporate Governance Code or environmental data in their web sites. Almost in all cases, the information refers mainly to products offered, prices of membership units (clearing units) and other messages addressed to customers.

Chart 1.3.1

PTE and TFI publishing reports on their compliance with the standards of the Corporate Governance Code

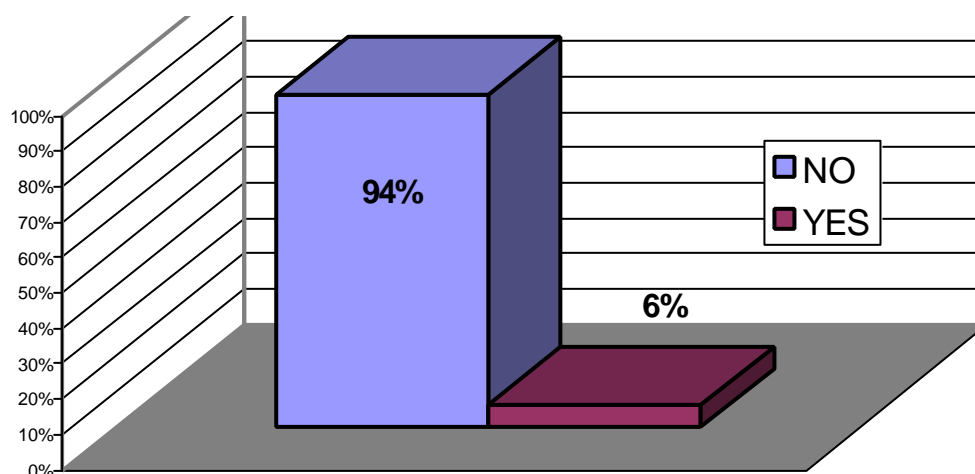


Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

The employment information usually does not comprise any data related to benefit policy, industrial safety rules, working standards, etc. An exception is Ergo Hestia, pension company that publishes brief information about training programmes and professional career in its web sites.

Chart 1.3.2

PTEs informing about employee training plans



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

None of pension and investment funds has not presented any information directly concerning Corporate Social Responsibility according to rules applied in the international markets.

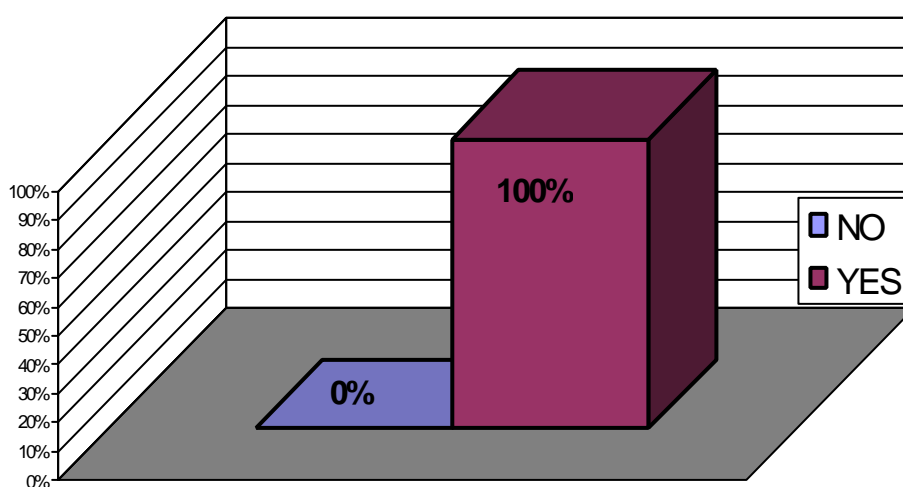
Here, we have to give an example from our Polish pension fund market. The owner of shares of one fund is the Polish Episcopate, which means that the fund may prefer and invest assets in socially responsible undertakings. This aspect was highly stressed during the acquisition and advertising campaign after the fund establishment, but was neglected thereafter.

All funds operate at the consent of the Securities and Exchanges Commission / the Insurance and Pension Fund Supervision Commission and they publish their financial results, articles of association and prospectuses. It is connected with information requirements stipulated in legal acts for both types of entities (Investment Fund Act, Pension Fund Act). The scope of regulations given in both these legal acts seems sufficient to have supervisory bodies, customers and counterparties receive clear and complete information required.

Most pension and investment funds publish the information about their management board members, and more rarely about the composition of supervisory boards, in their web sites. The scope of their responsibility is presented in quite a superficial way, or usually there is no such information at all. Data about the structure of shareholders do not include their detailed rights. It is likely to result from the fact that they are directly based on provisions of the Commercial Companies Code, and funds do not find it necessary to describe them in their web sites. The above issues are also set forth in the articles of association.

### Chart 1.3.3

#### PTEs publishing information about their management board members



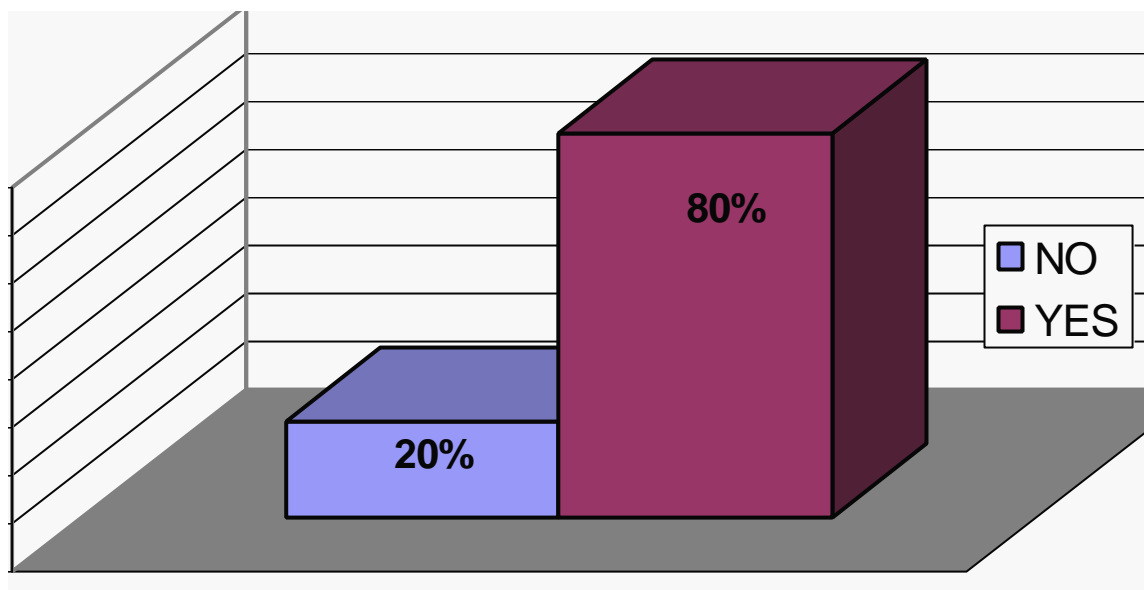
Source: Own study based on research carried out by the Gdansk Institute for Market Economics.





Chart 1.3.4.

TFIs publishing information about their management board members



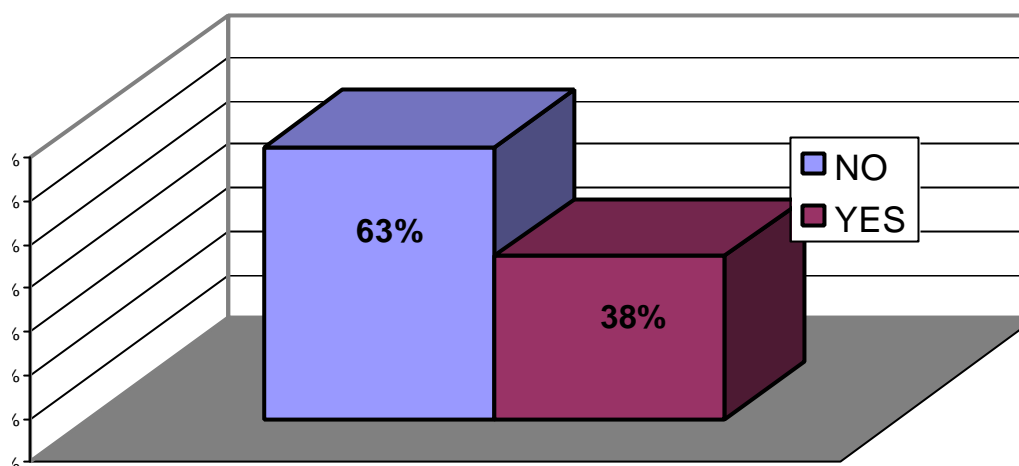
Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

It is quite specific that there are no detailed data about external auditors reviewing financial statements. The information appearing occasionally is unfortunately quite superficial.

We may assume that some funds being parts of bigger financial groups apply Corporate Governance principles, not mentioning them in their web sites. The example may be Arka TFI SA, whose shareholder is BZ WBK S.A. Based on rules applied by the bank, we may presume that Arka applies the Corporate Governance principles. The work of its supervisory board is supported by so called committees composed both of the board members, as well as persons not being its members, but delegated to perform expert and analytic tasks. Such a solution significantly improves the activity of the supervisory board, thus it increases the efficiency of supervisory tasks realised by it. We may expect that Arka TFI, being a part of the banking group, has also implemented proven mechanisms enhancing the effectiveness of its ownership supervision.

Chart 1.3.5

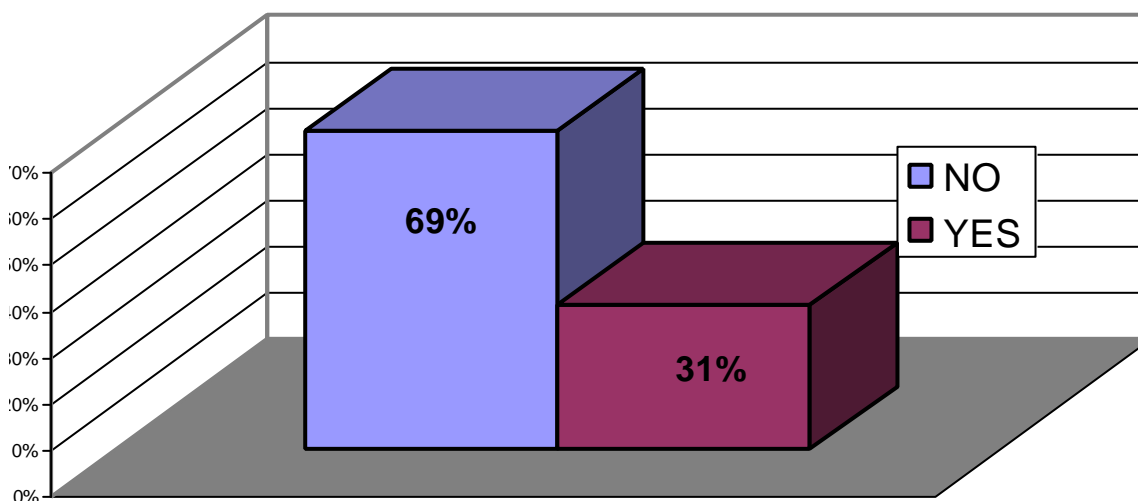
TFIs publishing detailed information about the composition and structure of their supervisory boards



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

Chart 1.3.6

PTEs publishing detailed information about the composition and structure of their supervisory boards



Source: Own study based on research carried out by the Gdansk Institute for Market Economics.

We should ask the following question: What may be the consequences of not implementing Corporate Social Responsibility for TFIs and PTEs? May the implementation of these principles change anything in their operation?

It seems that they may have some other impact and play an important role in popularising these principles (especially CG) among companies that may potentially come within their investment portfolios provided that they observe these principles.

The experience of developed markets shows that the application of the principles of business ethics is profitable for companies. In the international markets, the difference between the value of shares of companies applying Corporate Governance in practice and the value of shares of other companies that have not implemented it sometimes reaches several or even tens of percents. Thus, it seems natural that corporate investors are eager to invest their assets in securities issued by companies applying the CG principles.

Of course, it has also got practical implications for the very companies, since it becomes easier for them to place new issues of shares or bonds in the financial markets.

Observing such trends, we may expect that the introduction of Corporate Governance may become more and more important and profitable for the very TFIs and PTEs.

They should build their position mainly based on the confidence of their customers and the effectiveness in multiplying funds entrusted to them. When an investor makes a decision to buy shares, bonds or other securities, he takes into account mainly parameters published by the very company, market or analysts. Thus, persons making investment decisions rely on information obtained from the economic environment.

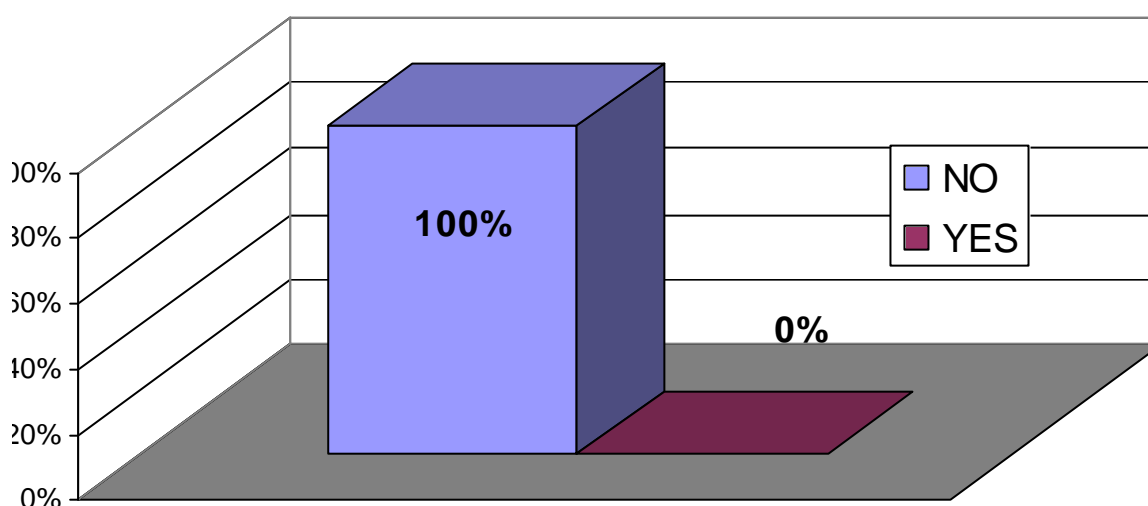
However, it happens that even in well-regulated markets, including undoubtedly the American market, ethical and legal rules are broken. A negative example may be Enron, the power concern, which due to its attempts to hide its actual financial standing for a long time created the image of a well-doing corporation. Unfortunately, investors realised that the moment they were not able to recover funds invested.

So far, in Poland, there was no situation close to Enron or WorldCom. However, from time to time, there appears the information about dishonest practices applied by some companies and their authorities. Hiding the information having direct impact on the company's market evaluation is not acceptable in the market that wants to be considered as well-organised and safe. Of course, we are not able to eliminate all cases resulting from dishonest practices applied by companies.

Undoubtedly, by implementing principles of Corporate Social Responsibility and Corporate Governance (also as required by corporate investors, like investment funds managed by TFIs or pension funds managed by PTEs), we may substantially decrease the possibility of similar events in future.

**Chart 1.3.7**

**TFIs and PTEs publishing information about their investment policy consistent with Corporate Social Responsibility**



*Source: Own study based on research carried out by the Gdansk Institute for Market Economics.*

Benefits resulting therefrom for TFIs and Open Pension Funds operating in Poland may be significant. We have to remember that both these types of funds invest most of their assets in publicly traded securities. The moment the quotations of one of companies suddenly drop due to its wrong management or defaults, customers who entrusted their funds to these institutions will indirectly lose. Thus, by implementing adequate rules of proceeding in a quick and comprehensive way, we will decrease this risk and increase the security of funds invested, at the same time.

In Poland, the awareness of this fact is systematically growing. Many environments give visible signals that our domestic business entities should start catching up with the best world standards. The same refers to ethical standards and Corporate Social Responsibility.

Analysing the development of international companies, we may often notice that companies and corporations that want to achieve stable and long-term success should incorporate economic, ethical and environmental standards in their activities. Companies that want to achieve a significant position in the market must follow the rules of sustainable development. To be efficient, this strategy should equally cover economic, environmental and social factors. A good solution should be searching for directions of activities that are socially reliable, environment-friendly and economically valuable at the same time.

It is a real challenge for our domestic financial institutions, like TFIs and PTEs. To follow the rules of sustainable development and to construct and maintain the existing confidence, they should consider implementing CSR principles. The social awareness of consumers and customers is systematically changing. It is also subject to basic changes among management staff of the financial sector. It may bring about deep practical implications. Successive introduction of high management culture, including, but not limited to, the implementation of specific principles of social and environmental responsibility, may directly lead to increasing the effectiveness of investment processes, the growth of competition, employee motivation, etc. The consequence of that may be maintaining the existing and attracting new customers, which is, obviously, one of the main factors of the growth of the economic effectiveness of one's activity.

The company that does not implement Corporate Social Responsibility may be gradually pushed aside by its competitors which implemented such solutions earlier.

It seems that along with the development of the customers and investors' awareness, such terms like Corporate Social Responsibility, compliance with the Code of Ethics, honesty, etc. will acquire new meaning.

Today, in Poland, in the light of overuses connected with overlapping political and economic life, the majority of the society waits for solutions that will make some order. Excessive interference of politics in economy seriously reduce the society's confidence. A response to this problem may be the implementation of CSR rules not only among companies managing pension and investment funds, but all other business entities, as well.

To sum up the survey on investment fund companies and common pension companies:

- The data in the web sites are often updated or changed. The content of information changes on a current basis, especially as regards parameters directly connected with



investment policy. Customers of both types of funds may easily obtain data required to make decisions to maintain or change an entity managing their funds.

- As far as the implementation of Corporate Social Responsibility is concerned, Polish funds still have a lot to do. Maybe some of them (not informing us about that) have already started the work to implement CSR. Its full implementation will, for sure, improve the transparency of their investments, which as a result will increase the security of funds entrusted to them. In addition, it seems that corporate investors may play a significant role to accelerate the rate of introducing standards in the market of publicly traded companies.